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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 001998

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SUBJECT: TURKEY SIGNS NATURAL GAS MOU WITH IRAN

REF: ANKARA 1994

Classified By: Economic Counselor Dale Eppler for reasons 1.4 (B) and (D)

¶1. (C) Summary. MFA Energy Department Head Berris Ekinici characterized the MOU signed between Turkish Energy Minister Hilmi Guler and Iranian Petroleum Minister Gholam Hossein Nozari on November 17 as "nothing new." There was no progress on long-standing issues such as gas price, investment terms or gas transit conditions. The MOU reiterates the three main tenants of the July 14, 2007 MOU on natural gas cooperation between the parties:

- Iran's willingness to serve as a transit country for Turkmen gas to Turkey and markets beyond;
- Turkish Petroleum's (TPAO) right (in conjunction with the GOI) to explore and develop phases 22, 23, and 24 of Iran's South Pars field; and
- Construction of a new pipeline from South Pars to the Turkish border for transit of Iranian gas to Turkey and beyond.

We are cautious about taking MFA's downbeat version of the MOU at face value, but are encouraged by the fact that neither Guler nor the Iranians are trumpeting this MOU as a success, when both have every reason to do so. End summary.

¶2. (C) Ekinici described the negotiations as tense and said the Turkish delegation left the negotiating table without an agreement on the afternoon of Nov 17, only to be called several hours later by the Iranian president in hopes of getting an 11th hour deal. The sticking points continue to be the substance of the agreement, (reftel) which has languished without progress for the past year, Ekinici said. The MOU did not reach any new agreement on pricing, investment terms or transit fees and conditions.

¶3. (C) The MOU establishes Turkey-Iranian technical working groups to flush out the details of the agreement. Effectively, this article of the MOU formalizes the technical-level discussions that have been taking place over the last year between the Iranians and TPAO, BOTAS, and the Ministry of Energy over the last year. The MOU stipulates that the parties will come together a year from now (November 2009) to review progress on the MOU.

¶4. (U) A compilation of local press reports is below.

"This MOU will move our cooperation and efforts in energy one step further," said Minister Guler after the signing ceremony in Tehran. Guler noted that the two parties have been carrying out comprehensive and detailed studies on this issue since 2007, which resulted in signing of this important MOU. "We will seriously follow this project and believe it relates to a great extent to all the countries in the region and Europe," commented Guler. Responding to a question on whether this project would be realized, Guler said Turkey would seriously follow up on the documents it signed, but noted that the project had several phases, including gas production, refinery and pipeline construction. "Naturally, these will take time," said Guler. Responding to another question on international reaction to the project, Guler said they did not face any pressure. Guler stated that the talks were focused on the amount of gas, and not the price, and added they would start the comprehensive technical studies, which is expected to take one year.

Commenting on the deal, Petroleum Minister Nozari said the two sides would form working groups and hold regular meetings to implement the MOU. Nozari also stated that the technical work could take a year, noting the pipeline from South Pars Field would be 1850km long. Nozari added that Turkey and Iran could jointly invest in the construction of the pipeline.

The MOU reportedly gives Turkey the right to operate phases 22, 23, and 24 of the South Pars Field. The project foresees a daily production of 46 million cubic meters of gas in this field, and Turkey will acquire the rights to use half of this

ANKARA 00001998 002 OF 002

amount. The MOU also envisages the joint construction of a 1,850-kilometer (1,200-mile) pipeline from the southern Gulf port of Assaluyeh, off where South Pars lies, to the Bazargan border area with Turkey in northwest Iran. Iran will let Turkey import Turkmen gas through Iranian territories, and the pipeline to be constructed is expected to transport a total 35 BCM of gas to Turkey and on to Europe. It was not clear how much of that gas is expected to be Turkmen.

15. (C) Comment: We are cautious about taking what we hear about the MOU from the MFA at face value, and continue to seek information from various sources. The GOT is very familiar with U.S. policy and law on Iran and has every reason to tell us a version of events that will not trigger consideration of sanctions. However, we are encouraged by the fact that neither Guler nor the Iranians are trumpeting this MOU as a success, and both have every reason to do so. Guler took a big political risk in going to Iran without a deal in hand, and it's difficult to see how he can claim this MOU as a win for Turkey, as it apparently does not contain any new provisions on the key issues preventing additional Iranian gas from getting to Turkey. Making progress on bringing Turkmen gas through Iran to Turkey also would be viewed by the GOT as a success, but Guler apparently did not make any progress on this issue either, judging from his silence on the issue with the press. End comment.

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